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Folio:

THE MAGAZINE FOR MAGAZINE MANAGEMENT

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PRINTING CONTRACTS: HOW TO CONTROL ESCALATION

FIVE-YEAR PAPER FORECAST

HENRY GRUNWALD OF TIME INC.: ARE EDITORS NECESSARY?

DIRECT MAIL: 1980'S BEST AND WORST

JANUARY 1981 VOL. 10 NO. 1

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THE MAGAZINE FOR MAGAZINE MANAGEMENT

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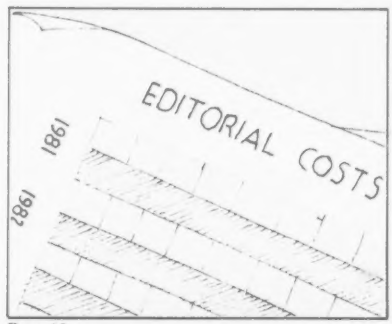

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Management

Pre-tax profits for magazines 8.27% in 1979

New York City—The MPA Price Waterhouse Financial Survey for 1979 provides important information on the performance of the magazine industry during these unstable economic times. The 155 magazines providing figures for 1979 showed an operating profit (pre-tax) of 8.27 percent. Assuming corporate taxes of 46 percent, respondents' net income for 1979 was 4.47 percent.

How does this 4.47 percent compare to the net income of related industries and to that of the American economy in general? The American Association of Advertising Agencies reported an average net profit of 4.59 percent for incorporated agencies in 1979, while the National Association of Broadcasters computed a 3.13 percent rate for radio stations responding to its annual financial survey. The Fortune 500 shows a 5.4 percent net for 1979, while The Forbes 500 shows a 5.8 percent net for the year.

For the first time, the MPA Survey has examined the effects of inflation on the industry. For the 101 titles which have reported in each of the last three years, pre-tax operating profit for the 1977-1979 period was up 11.8 percent. However, when this figure is adjusted for inflation using the GNP deflator, operating profit for the period shows a decline of 4.3 percent.

Total revenues for the 101 magazines that have participated in the study over the past three years are up 14.4 percent in 1979 over 1978. Breaking down total revenue, 55 percent came from advertising and 45 percent from circulation. Circulation revenue as a percent of total magazine revenue has increased substantially over the years, according to MPA.

In 1979, costs per one million copies were as follows: $1,229 for paper, $1,220 for printing and binding, $946 for subscription distribution, and $218 for single-copy distri-

Summary of responses to MPA financial surveys for those publishers responding in each of the years 1977-1979

(Amounts expressed as a percentage of total magazine revenues)

	Percentages		
	1977	1978	1979
Total number of magazines reporting	96	100	101
Revenue			
Net advertising revenues	55.69	55.99	55.20
Gross subscription revenues	30.61	29.93	30.15
Gross single copy revenues	13.70	14.08	14.65
Total magazine revenues	100.00	100.00	100.00
Expenses			
Advertising			
Selling costs	5.75	5.45	5.09
Research and promotion costs	3.21	2.96	2.91
Total advertising expenses	8.96	8.41	8.00
Circulation			
Commissions to subscription agencies	5.91	5.24	4.82
Other subscription promotion costs	6.16	7.24	7.47
Commissions on single-copy sales	2.51	3.16	4.12
Other single-copy promotion costs	1.30	1.38	1.72
Fulfillment costs	2.69	2.45	2.37
Total circulation expenses	18.57	19.47	20.50
Editorial costs	8.12	7.80	7.90
Manufacturing and Production			
Paper costs	17.94	18.30	17.68
Printing and bindery costs	18.83	18.09	17.55
Total manufacturing and production expenses	36.77	36.39	35.23
Distribution expenses	7.67	8.45	9.41
Other operational expenses			
First class postage costs	1.57	1.44	1.32
Third class postage costs	1.60	1.50	1.40
Other postage and operating costs	1.00	.93	1.06
Total other operational expenses	4.17	3.87	3.78
Administrative costs	4.36	5.72	5.94
Total magazine costs	88.62	90.11	90.76
Operating profit	11.38	9.89	9.24

Source: MPA/PW 1979 Survey

bution.

Other important operating statistics for 1979: single-copy returns averaged 34.6 percent; the ad:edit ratio was 48:52, while the subscription:single-copy ratio was 75:25.

Another new feature in this year's Survey is a breakout by circulation category of operating profit figures. This analysis shows that magazines with circulations over two million had pre-tax profits in 1979 of 9.40 percent of total magazine revenues. The least profitable magazines were those with circulations of 250,000 to 500,000, which showed a pre-tax profit of 1.43 percent of total magazine revenues. Weekly and bimonthly magazines had a pre-tax profit of 12.42 percent.

Pre-tax profits in 1979 as a percentage of total magazine revenues by circulation categories

Less than 250,000	250,000-500,000	500,000-750,000	750,000-1,000,000	1,000,000-2,000,000	over 2,000,000	weeklies/ biweeklies
6.90%	1.43%	5.06%	5.45%	2.15%	9.40%	12.42%

Magazine revenues as a percent of total

	1977	1978	1979
Net ad revenues	55.69	55.99	55.2
Gross sub revenues	30.61	29.93	30.1
Gross S/C revenues	13.70	14.08	14.6
Total revenues	100.00	100.00	100.0

Average pre-tax profits for magazines 1977-1979

	Unadjusted pre-tax profits	Pre-tax profits adjusted for inflation
1977	$1,921,000	$1,921,000
1978	$1,929,000	$1,797,000
1979	$2,040,000	$1,747,000
	Percent change from 1977 to 1979: +6.2%	Percent change from 1977 to 1979: -9.1%

Source: MPA/PW 1979 Survey

New technology poses personnel challenge

Syracuse, New York—Technological developments in magazine publishing—particularly electronic editing and the database concept—pose a challenge to management to keep employees creative and motivated, according to Barbara Hampson, vice president of Miller Freeman Publications.

Other changes that the industry must address through personnel programs, says Hampson, are mergers and acquisitions, and the influx of women into business magazines that often serve industries dominated by men.

Hampson, who was this year's "Beard" lecturer at Syracuse University's S.I. Newhouse School of Public Communications, said that publishing industry changes threaten personal satisfaction at a time when, ironically, personal satisfaction and the quality of life are becoming dominant career values.

"The potential inherent in electronic editing systems for impersonal, mechanistic, anonymous work—no matter how productive—poses a threat to the human vitality of the business press today—a threat we must not let become a reality," said Hampson, whose company recently installed full photocomposition systems.

The technology available today makes it possible for an editor "to write, edit and lay out an article without ever handling paper or meeting face-to-face with other editors, compositors, production people or paste-up artists," she noted.

Databases, or the expansion of publishers' information services, could also result in less personal communication among people in the business press, Hampson warns. It could become unnecessary, from a technical point of view, for people in a company to communicate in person.

"The resulting reduction in human interaction would take much of the positive meaning out of the reality of a 'business community,' " she said.

Another significant change affecting the communications industry is the number of industry mergers and acquisitions. Hampson said this trend is making the independent publisher an endangered species, and is contributing to the emergence of the impersonal corporation as a normal working environment. "What gets neglected here is the development and encouragement of our most vital resource—people," Hampson said.

The influx of women into the business press is still another change affecting human relations, Hampson points out. "This presents a challenge to the business press—which often serves industries where heavy equipment and male dominance have been the rule," she said.

Further, "the forces of depersonalization conflict directly with the aspirations of any under-represented group seeking visibility, acceptance and participation in the decision-making process."

To counter the changes in the business press that threaten personal communications, management should set up human-resources committees and programs aimed at reinstituting personal interaction in their companies, Hampson contends.

Miller Freeman has established a human resources committee that meets annually. It consists of the president, Marsh Freeman; Hampson, who is chief personnel officer; an outside practicing psychologist, Ed Kahn; and company department heads.

The psychologist is also available to all Miller Freeman employees for personal or professional consultation. "We respect the complete privacy of his individual communications with the staff," Hampson adds.

Hampson said that the idea of using a consulting psychologist came from another magazine publishing

The first Folio Magazine Production Trends Survey polls production executives representing 559 magazines, revealing their thoughts on rising costs, paper supplies and other critical issues.

Folio's first annual production survey

By Barbara Love
Executive Editor

Production costs are expected to rise an average of 9.2 percent, according to an exclusive FOLIO Magazine Production Trends Survey covering 559 magazines. However, several magazines have budgeted for cost increases over 30 percent.

Seventy-six magazine production executives, many representing multiconsumer and business magazines, participated in the survey. Respondents are responsible for an average of 7.4 titles.

Distribution costs are expected to show the greatest increase in 1981 (11.3 percent), while composition costs are expected to increase the least (7.2 percent). For some magazines moving to in-house typesetting, composition costs will be reduced.

Paper costs will continue to rise, but not as fast as they have in the past. Paper costs are expected to rise 10.8 percent in 1981.

Production executives have made changes to alleviate paper cost increases, however. Almost one out of four (24 percent) respondents reported they will reduce the weight of text or cover stock for their magazines this year. Several others mentioned that they had already made this move in 1980. One executive, who changed to lighter-weight paper last year, said he might reinstate heavier paper in 1981 because of complaints about opacity.

While many production executives continue to feel that reducing the weight of paper is still the best solution to the problem of rising paper costs, many others choose to change to uncoated stock or a cheaper grade of paper.

Another alternative, mentioned by three respondents, is to move to uncoated or less expensive stock only for some sections or signatures. (Twenty respondents, or 26 percent of our sample, say they are already using uncoated paper as a regular part of their magazines.)

Other alternatives mentioned include passing along the higher costs to readers and advertisers (14 respondents); reducing the number of pages in an issue (6 respondents); reducing the trim size (6 respondents); reducing frequency (4 respondents); cutting circulation or press run (2 respondents); buying paper in bulk and storing it (2 respondents); delivering the magazine on microfiche or videotape (1 respondent).

Four respondents said flatly that there are no alternatives if paper costs continue to rise. They would just pay more.

More in-house pre-press work

Thirty-nine percent of respondents report they will be doing more in-house pre-press work in the future. The most frequently-mentioned change will be to in-house typesetting. But magazine production executives also mentioned plans to do the following pre-press work in-house: stats, ad preparation, stripping, color separations, shooting film, and capturing keystrokes for typesetting.

Half of all the respondents indicated that they already have in-house typesetting. When asked if they plan to purchase or replace in-house typesetting equipment in the next five years, 51 percent of respondents said "yes."

A strong interest in electronic editing systems was shown. Fifty-five percent of the respondents said they expect to purchase electronic editing systems in the next five years. The respondents indicating they expect to have electronic editing systems were generally the ones responsible for the larger numbers of magazines. However, seven respondents responsible for only one magazine, and eight respondents responsible for two magazines said they would make such a purchase.

Contracts with printers run anywhere from six months to eight years, with an average length of two years.

A small minority of production executives reports no specific-term printing contracts, and some have no contract at all. "I don't believe in them," said one respondent. Other production executives said they have "open" contracts, or work month by month.

When asked what provisions in the printing contract they would like to renegotiate before renewing, respondents mentioned cost escalations most frequently. They showed particular concern about pass-through of costs for employee settlements, price increases, and inflation clauses. One respondent wanted to set a maximum increase in the contract. Another wanted two-year price protection.

Production executives would also like to renegotiate those provisions which involve paper spoilage guarantees, incentives to conserve paper, delivery penalties, four-color costs, overs and unders on the press run, ink use on an actual instead of a per page basis, the ability to supply

"The biggest concerns of most production executives surveyed are the rising costs of labor, paper, printing and postage."

more furnished material to the printer, and costs broken out by type of work performed and materials used.

Negotiate with printers

When asked if they would seriously negotiate with other printers before renewing their contracts, a larger percentage (80 percent) said they would.

Several criteria are of almost equal importance when selecting a printer, according to the survey results. Respondents listed quality (23 respondents); price or competitive price (18 respondents); reliability of service or ability to meet deadlines (18 respondents); equipment capabilities (11 respondents); and location, either for distribution and mailing or close to editorial for convenience (2 respondents).

Other criteria which respondents indicated are important to them in selecting a printer: financial stability, access to paper supply, attention to detail, personnel, compatibility, ability to cooperate.

Respondents feel printers can cut costs in the following ways: saving on materials, doing more long-range planning, keeping up with advances in technology, firmer negotiating with unions, cutting paper waste, reducing paper spoilage, watching overruns, working longer shifts and having 24-hour-a-day operations, improving labor efficiency, tightening control of press run quantities, massive or brokerage paper buying, updating equipment (faster make-ready, faster binders), increasing accountability of pressmen for waste and negligence, and giving publishers good advice on their prep work.

Better communications needed

Production executives have a great many ideas on how printers could better meet the needs of publishers. Most of them involve improved communication.

Respondents say they want printers to tell them about anticipated price changes, procedural changes or scheduling changes. The survey also reveals that they want printers to "communicate developing problems in advance," "admit errors when the printer is at fault," and "ask questions when they're not sure of instructions."

Several respondents stressed that they want printers to "anticipate problems in advance versus resolving the same problems time and time again."

Production executives also want help from printers—advice on the economic impact of decisions, suggested ways to save money in stripping, shooting, etc. "They should suggest as many cost-saving steps and procedures as possible," says one executive.

Respondents also want printers to understand the magazine publisher's problems better. "Printers need to understand the nature of our business," says one. "Printers have to understand the importance of advertising revenue to publishers," says another. "Most of all, a printer must *react* and respond when problems arise," says still another.

Not everyone thinks there is a lot of room for improvement, however. Some production executives took the opportunity to say they think printers are doing a pretty good job. "I feel the good ones are extremely responsive to us, often leading us," comments the production manager for three business magazines.

Ad reproduction quality okay

When asked if they are satisfied with the advertising reproduction quality in their magazines, the large majority (86 percent) said "yes."

Over half the respondents (57 percent) said they specify the use of SWOP standards in work with suppliers. Of those who do specify SWOP standards, over half report problems with cooperation from agencies, printers or separators.

Color is of increasing importance to publishers and production executives. Forty-one percent of the respondents said they are budgeting more color next year. On average, they are budgeting for 14.3 percent more advertising color and 10.6 percent more editorial color.

When buying four-color separations, the majority of production executives (57 percent) said quality is the most important consideration; 36 percent said price; and 10 percent said turnaround time.

Sixty-eight percent of respondents report that advertisers are demanding more quality reproduction today.

Most respondents (88 percent) do not expect to change their binding methods in the next two years. Of those few who do expect to change, more (78 percent) will change from saddle stitch to perfect binding than will change from perfect binding to saddle stitch (22 percent).

The need for more versatile binding capabilities was expressed by 34 percent of respondents.

Escalating costs biggest problem

The biggest concern of most of the production executives answering the survey is the rising cost of labor, materials, paper, printing, and postage.

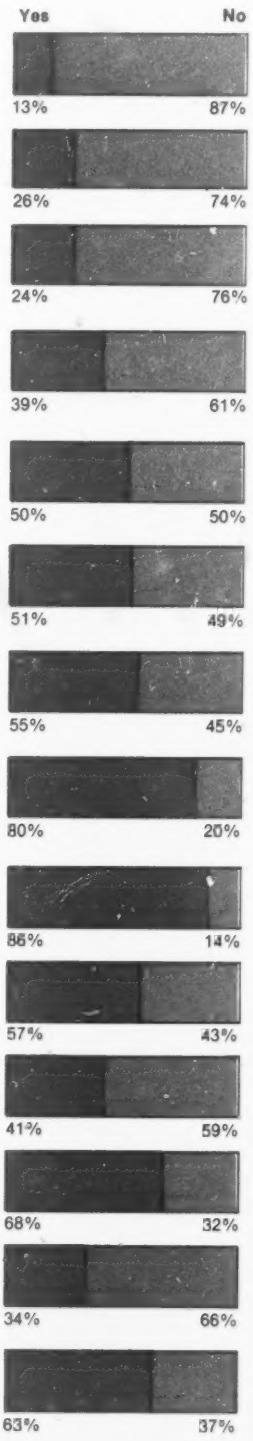
Not only are rapidly rising costs a problem, one respondent points out, but predicting cost increases for budgeting is a problem.

The production manager for two monthlies says that his biggest problem is "top management's understandable demands for top quality products, while unable to fully understand and accept rapidly increasing prices in photoengraving, paper, and printing."

Maintaining a quality magazine was mentioned as one of the biggest problems (17 respondents). Also mentioned: gaining scheduling control and meeting deadlines (20 respondents); agencies that don't meet closing dates (8 respondents); editorial deadlines not observed (7 respondents); salesmen taking late ads (3 respondents); USPS regulations (3 respondents).

A number of other issues were cited as problems to one or more production executives. Among them: overtime production, deadlines over holidays, oversold printers, errors through lack of information, flexibility in advertising and editorial, reliable ad material, the increasing demand for tailor-made ad splits, over-sized ads, poorly informed advertisers, good reproduction on lighter-weight stock, affordable graphics and color work, electronic

Annual Folio Magazine Production Trends Survey



Do you expect paper supply problems in 1981?

Are you now using uncoated paper as a regular part of your magazine(s)?

Are you planning to reduce the weight of text or cover stock in 1981?

Will your publication(s) be doing more in-house pre-press work in the future?

Do you have in-house typesetting?

Do you plan to purchase or replace in-house typesetting equipment in the next five years?

Do you plan to purchase electronic editing systems in the next five years?

Will you seriously negotiate with other printers before renewing your contract?

Are you satisfied with advertising reproduction quality in your magazine(s)?

Do you specify the use of SWOP standards in work with suppliers?

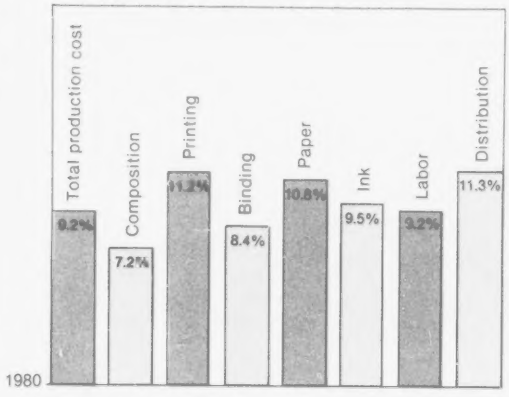
Are you budgeting for more color pages in 1981?

Are advertisers today more demanding of quality reproduction?

Do you need more versatile binding capabilities in the future?

Do you feel management is sufficiently interested in and sympathetic to production department problems?

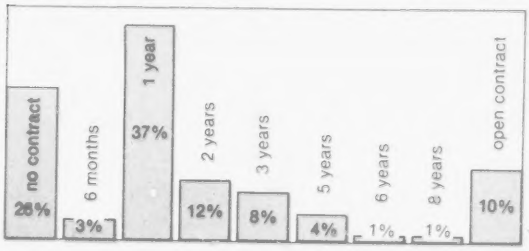
How much of an increase (%) have you budgeted in 1981?



What are the biggest problems facing magazine production managers today?

	respondents
Increased costs for labor, materials, paper, printing, postage	35
Maintaining quality magazine	17
Scheduling control, meeting deadlines	20
Agencies that don't meet closing dates	8
Editorial deadlines not observed	7
USPS regulations	3
Salesmen taking late ads	3

How long is your contract with your printer?

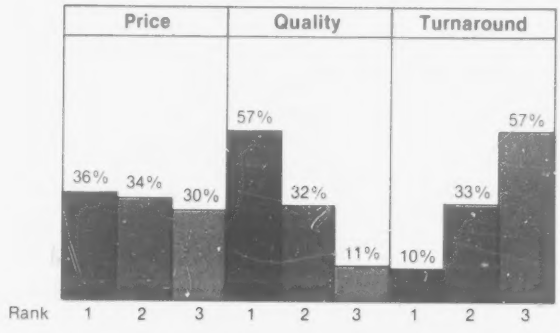


Please rank the three most important criteria for choosing a printer:

	respondents
Quality	23
Price	18
Reliability	18
Equipment capabilities	11
Location	2

When buying four-color separations, what is the most important to you?

Price?____Quality?____Turnaround time?____



What do you feel are the alternatives if paper costs continue to rise?

	respondents
Reducing the weight of paper	22
Moving to uncoated groundwood or cheaper stock	20
Moving to uncoated, groundwood only for some signatures or sections	3
Passing higher paper costs along to readers or advertisers	14
Reducing the number of pages in an issue	6
Reducing trim size	6
Reducing frequency	4
Cutting circulation or press run	2
Buying own paper in bulk and storing it	2
Delivering magazine on microfiche, videotape	1
No alternative	4

Mark your calendar for the publishing event of 1981.

FACE TO FACE

THE 7TH ANNUAL PUBLISHING CONFERENCE & EXPOSITION
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NEW YORK HILTON
NOV. 16, 17, 18 and 19, 1981

Mark your calendar and plan to attend publishing's spectacular national trade event—FACE TO FACE: THE ANNUAL PUBLISHING CONFERENCE & EXPOSITION. It takes place for four days, November 16 through 19, 1981, at the New York Hilton. You'll see publishing's innovative products, services and equipment on display in the giant 270-booth exhibit hall. (Admission free to publishing professionals.) And there are more than 160 different seminar workshops where you can sharpen your creative or management skills. *It's the world's largest combined meeting of the book and magazine publishing industries.*— and the most exciting show in town!

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technology, cooperation from suppliers, and associates who don't fully understand the reproduction process.

Technology highlighted

The most significant change in magazine production in the next five years will be in technology, according to many respondents to the survey. Respondents listed computer make-up of pages and burning directly into plates, bypassing negatives and stripping; typesetting via word processing; computer technology and lasers; electronic and print technology; computerized layouts; more automation; rotogravure preparation technology; in-house electronic editing and design.

While the overwhelming number of responses about the most significant change in magazine production focused on technology, some production executives believe the most significant development will be in other areas. Some of those other areas: growth of independent preparatory companies; better reproduction on lighter-weight stocks; greater use of newsprint; increasing use of gravure, more editions and circulation breakouts; trend to short-run specialized magazines; and the consolidation of effort with cost-cutting as a goal.

When asked to give their primary source for new technical information, 38 percent said the trade press, 30 percent said printer reps, and 14 percent, fellow executives.

Production executives were asked if they think management is sufficiently interested and sympathetic to production department problems. Sixty-three percent of respondents said "yes." But that leaves 37 percent who do not think they are sufficiently appreciated by management.

This survey may not be considered representative of the industry, but it does give indications of current problems and trends in magazine production. The percentages reported in this feature are based on the number of people responding to each question and not the total number of respondents to the survey.

Without industry-wide agreement about the paper situation, publishers don't know whether they should be begging or bargaining.

Five-year paper forecast

By Barbara Love
Executive Editor

Publishers are well aware of the devastating effects of the paper shortage that began in 1975 and reached a crisis point in 1979-80. Many had to go abroad for paper at much higher prices; many were forced to use uncoated paper; some had to eliminate a section of the magazine, skip an issue or cut circulation. Sometimes difficulty in securing paper resulted in a decisions to abort a new magazine effort or a decision not to increase frequency.

Obviously, publishers would like to hear good news—that the paper supply crisis is over. Since the experts can't make that claim, however, publishers would at least like to know how bad the situation still is so they can plan accordingly.

Unfortunately, the experts are not able to give publishers a straight answer on the supply situation through 1984. Although many agencies are surveying the industry to determine supply and demand for paper (primarily lightweight coated groundwood stock) used by magazine publishers, there is little agreement about this situation. Unfortunately, most paper forecasts represent the subjective thinking and personal studies of the individual preparing them.

"There may be someone out there who knows what the real paper supply situation is, but we just don't know who it is," says Shel Asen, general manager-manufacturing, McGraw-Hill Publications Company. "It's like listening to five weather reports. One of the people may be right; unfortunately, you just don't know which one."

"It's absurd and intolerable that we don't know whether there will be a paper shortage, an adequate supply, or a surplus ahead," says another production executive at a major magazine publishing company. "We must find out. How can we plan ahead?"

Without industry-wide agreement about the paper situation, publishers don't know whether they should be begging or bargaining for paper. They don't know if there is room for negotiation. They don't know how much paper to contract for, how long to contract for. At the same time, paper manufacturers don't know whether to install new machines.

Easing of crisis

The near-term picture—through 1981—indicates an easing of the crisis but a continuation of paper shortages, according to people interviewed by FOLIO.

"The way I see it, the situation will be easier in 1981," says Irving Herschbein, director-manufacturing/distribution, The Conde Nast Publications, Inc.

"There seems to be a softness in the paper market right now; paper is available," agrees Leonard Pinto, vice president-general manager, Davis Publications, Inc., and a member of the Magazine Publishers Association paper committee. "One indication that there isn't a supply shortage is the current lack of interest in importing paper."

"Right now we have a situation where the majority of publishers and printers have enough paper to meet their needs, although there are still many who do not have an adequate supply," says Asen, who is also chairman of the Graphic Communications Computer Association (GCCA) Industry Resources Council. "Those companies with paper contracts are finding those contracts are being fulfilled. Those who do not have contracts are still having difficulty getting paper."

What happened, Asen explains, is that before the paper supply squeeze, many people decided to play it loose and not sign a contract. Then, when the crunch came, they couldn't get a contract. "These companies came knocking on the doors of paper manufacturers wanting contracts, and the paper companies justly said, 'Where were you when we wanted you to sign a contract?' " he says.

Asen, unlike Pinto, points to evidence that indicates the shortage is still here. "Paper deliveries are still running four to six weeks late," he says. "If there were enough paper, those deliveries would not be late. One paper manufacturer is so late with deliveries, he's asking us to take less tonnage, because he can't catch up." Publishers are also calling McGraw-Hill to see if it has any extra paper, says Asen. "If we are being called that means both the printer and the publisher don't have enough paper," he adds.

"For all the guys out there who say there's plenty of paper," says another publishing executive, "there's also a lot of evidence that there isn't enough. Because the crisis is easing, we feel better. It's something like being captured and then having your captor free all of you but your right arm. You feel a sense of freedom, but you're not really free."

The controversy is focusing on

"People are just beginning to realize that analyzing paper supply and demand by pounds–the way it has always been done–creates distortion."

what will happen to the domestic supply of lightweight coated groundwood in 1982 and 1983. The best forecast for 1983, for example, is a surplus of over 100,000 tons; the worst forecast is a shortfall of over 300,000 tons.

1982-'83: controversial years

Magazine Publishers Association paper committee chairman Frank Lincoln is predicting a shortfall through 1983. Others disagree, claiming that there will be a surplus in 1982 and 1983. Because some of the people who disagree with Lincoln are on the MPA paper committee, Lincoln is revising his forecast.

Lincoln, who has been studying the situation by surveying publishers (to find out what they are buying) and the American Paper Institute (to find out what is being produced), characterizes the last MPA paper committee meeting as "very lively" and admits that not everyone agreed with his report. It is now understood that there is no MPA paper committee forecast at present, only Lincoln's forecast.

Others who disagree with Lincoln include paper manufacturers, printers, publishing executives, and *Pulp & Paper*, the industry magazine. They see enough paper in 1981, and an oversupply of paper in 1982 and 1983.

"Three major manufacturers of publication grade paper we talk to say there will be enough paper for the next three years," says a production executive at a major business publishing company.

St. Regis is estimating a surplus in supply over demand for U.S. coated paper of 36,000 tons in 1981, 24,000 tons in 1982 and 102,000 tons in 1983.

Pulp & Paper, which sees 400,000 tons of new capacity coming on in 1981, expects an overcapacity by 1982.

Those who predict continuing paper supply problems do have supporters, however. One publisher says that his paper manufacturer is predicting a continuing shortfall. And Herschbein at Conde Nast, who says things are easing in 1981, believes a tight supply situation will start to build up again in 1982. "The growth in consumption by magazines will be slightly greater than supply when you compare MPA and API figures," he says.

If the original Lincoln report, which is based on a survey of the industry, is correct, how serious would a shortage of over 300,000 tons be? Pinto says, " That's not a helleva lot of shortfall. We can make that up."

But another publication company executive points out that making up the shortfall could be very costly to individual publishers if they have to turn overseas for paper again. "The premium on overseas paper is up to 50 percent," he points out.

"Consider the hypothetical case of the publisher who buys 1,000 tons of lightweight coated paper in the U.S. at $700 a ton. He pays $700,000. However, if he had to secure the paper from Europe, he would have to pay a 50 percent premium—an additional $350,000," he says.

Predictions for 1984 are not in conflict at this point. Most experts on paper supply—those who see a shortfall through 1983 and those who see a surplus—predict a shortfall in 1984. They base their predictions on machine announcements to date: no U.S. paper manufacturer has announced new paper capacity for 1984 and magazine demand for paper is expected to continue steadily upward.

Whose responsibility is it?

The responsibility for keeping on top of the paper situation seems tofall through the cracks somewhere. There isn't a single body covering the broad spectrum of the industry whose job it is to come up with forecast figures on lightweight coated publication grade paper.

The American Paper Institute does not provide this information. "API will openly tell you that it is not in the business of forecasting," says one publishing executive.

The MPA paper committee has taken on the job as a volunteer service to the industry. The 25 or 30 magazine publishing executives and associate member manufacturers on the committee have only limited time to spend on committee business.

While the MPA is trying to come up with a document that will represent a universally-accepted forecast, there are those who do not think agreement is possible. The GCCA Industry Resources Council, which fully supports MPA's work, is trying to reconcile differences. GCCA is composed of printers, publishers, industry suppliers and manufacturing consultants.

Too many variables

Compounding the problem is the fact that there are so many variables in the paper situation. "On top of these variables, people pile subjective assumptions," asserts one production executive on the MPA paper committee.

Here are some of the variables:

How fast is the magazine industry growing? "The most significant factor and the toughest variable is publishers' demand for paper," says Asen.

Pinto agrees. "We don't know how many books will come on stream in the future," he says. "Some publishers who see a speedy recovery may put out more titles."

Most forecasts, including MPA's, show a 3.5 percent to 4 percent growth figured in the magazine industry's yearly paper needs, Asen says. This average growth rate, based on historical factors, takes into account changes in magazine advertising pages, new magazines coming on, and existing magazines that "belly-up."

Asen warns that averages in this period of rapid change are often dangerous.

How many publishers will return to coated paper? Unable to secure coated paper during the paper shortage crisis, many publishers turned to uncoated stocks or supercalendered paper. Now that coated paper is available, will uncoated and supercalendered papers continue to be used? There are no studies showing the degree of reader and advertiser acceptance of uncoated and supercalendered paper.

What is the paper capacity? While capacity is announced for the most part through paper manufacturer reports issued by the American Paper Institute, those struggling with forecasts have to consider where in the API issuances they find capaci-

"Most existing paper forecasts represent the subjective thinking and personal studies of the individuals preparing them."

Capacity Expansion by manufacturer (U.S. Coated Groundwood)

No. 5 Coated	1979	1980	1981	1982	1983	1984
Boise Cascade			70,000	60,000	30,000	
Consolidated		94,000				
Crown Zellerbach	20,000					
Crown Zellerbach		12,000				
Frazer			80,000			
IP			80,000	32,000		
Mead				31,000	90,000	60,000
Midtec		50,000	60,000			
St. Regis		12,000				
St. Regis				40,000	84,000	18,000
Weyerhaeuser				70,000	70,000	35,000
Krueger	50,000	20,000				
	70,000	188,000	290,000	233,000	274,000	113,000
Other Coated						
Great Northern	45,000					
Mead	14,000	20,000				
Champion					50,000	100,000
Westvaca		70,000				
	59,000	90,000			50,000	100,000

Supply/Demand (U.S. Coated Groundwood)

	1979	1980	1981	1982	1983	1984
Total Expansions:	129,000	278,000	290,000	233,000	324,000	213,000
U.S. Capacity (Optimum-Maximum)	4,723,000	5,001,000	5,291,000	5,524,000	5,848,000	6,061,000
U.S. Capacity (Adjusted-Practical) (97% Operating Ratio)	4,586,000	4,864,000	5,154,000	5,387,000	5,711,000	5,024,000
U.S. Demand:	4,807,000	4,960,000	5,118,000	5,363,000	5,609,000	5,979,000
(Short Fall)/Over capacity:	(221,000)	(96,000)	36,000	24,000	102,000	(55,000)

Source: St. Regis Paper Co.

ty figures for magazine publishing papers.

Magazine publishers are primarily interested in number five coated papers. API statistic combine coated groundwood as number five coated papers and those number four coated papers that contain groundwood.

"There's an interpretation and understanding gap," says one magazine production executive.

"The problem is that API takes an overview and we want to get down to information about magazine papers," says an executive from Blandin Paper Co. "In order to do that, we have to take API's figures, eliminate some and add others." No agreed-upon method for this conversion has been arrived at.

Industry sources calculate that more than one million tons of lightweight coated paper will be coming on stream between 1979 and 1983. The paper will come from 10 manufacturers: Krueger, Consolidated,

"The responsibility for keeping on top of the paper situation seems to have fallen through the cracks somewhere. There is no one body whose job it is to forecast figures on publication grade paper."

Crown, Fraser, Midtec/Nitec, International Paper, Boise Cascade, Niagara of Wisconsin, Weyerhauser, and St. Regis.

How close will capacity come to the machines' rated capacities? When new paper machines are announced, most people use the rated capacity of the machines when figuring supply, explains John McCabe, administrative manager-manufacturing for McGraw-Hill Publications. But, he says, that figure is never reached. The figure is reduced by mill operating rates and marketing decisions of the paper companies.

The rated capacity figure is also reduced by downtime, another executive points out.

Employee strikes have also become a factor to be considered. Publishers need to know how much of the capacity will actually be shipped. Strikes have been a significant factor over the years, causing some major disruption in magazine publishing activities.

How many paper machines will be pulled out of the marketplace? Paper machines might not be used any longer because they are no longer competitive or no longer needed. Some people say this factor shouldn't be counted in calculations on supply and demand; others say you must count it.

How much capacity will go to magazines? When capacity is announced, no one knows how much of that new capacity will go to magazines. Lightweight coated publication grade papers are now being used extensively by catalog publishers, as well as by magazines. Some people think the catalog segment is getting more and more of the type of paper used by magazines. This is called the "intruder factor."

"We're concerned about the amount of lightweight coated paper available to magazines," says Lincoln, who is also vice president of the Hearst Enterprises Division, which purchases paper for Hearst magazines, books and newspapers. "We don't know what will be available for us in coated number five. All of a sudden we have commercial printers and catalog publishers competing with us for this paper."

Lincoln refers to API figures which seem to indicate that catalog publishers have increased their share of magazine publication grade paper from 30 to 37 percent.

"Although the pot's growing," he says, "magazine's seem to be getting a decreasing share. This might be a big factor in the difference of opinion in how much paper will be available to magazines."

But the fact that catalog publishers are using more pounds of magazine grade while magazine publishers are using proportionally

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Negotiating a printing contract

(Continued from page 73)

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Based upon its examination, made in accordance with generally accepted auditing standards, of Printer's calculations of all increases or decreases in the Components of the prices hereunder, in its opinion: The price adjustment has been made in accordance with this section (of the contract) and is the result of changes in employee compensation and direct benefits as evidenced by labor contracts and payroll and other applicable records; and changes in the costs of materials, supplies, energy and other costs as evidenced by suppliers' and vendors' contracts, invoices and statements.

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However, if your contract defines the kinds of cost increases your printer can pass on, if it limits the frequency of those increases, and if it lets your verify the accuracy of those increases, you can limit price escalation and defuse its potentially explosive effect on your profits.

Edward L. Smith, a New York attorney in private practice, specializes in the business and editorial legal problems of publishers. He was previously Vice President and Counsel of Newsweek *and, earlier, the Corporate Attorney of* The New York Times. *Before entering the law, he was an editor and reporter for the Associated Press.*

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Paper supply

(Continued from page 67)

fewer pounds then before does not necessarily mean that other users are taking more paper from magazine publishers, Asen points out.

People are just beginning to realize that analyzing paper supply and demand by pounds—the way it has always been done—creates distortions now that many magazines are turning to lighter weight papers, Asen explains.

"Magazines are using lighter weight paper, so while a weight analysis could show they are getting less," says Asen, " a square footage analysis may indicate that they are getting their fair share. If the paper weight situation is taken into account, the other users may not be perceived as getting more paper. On the other hand, magazine publishing executives who have been talking to catalog people are being told that that industry does plan to increase its use of lighter weight coated paper."

Because of the complications, some people are now thinking that supply and demand for magazine publication grade papers should be calculated in square footage rather than in pounds.

How much paper will be imported? Many publishers went abroad for paper during the worst periods of the paper shortage. Whether they will continue to do so depends on the availability of supply in the U.S. Coated paper imports are on the decline now, most people agree. Coated paper imports are expected to be a negligible factor in the upcoming years.

How much American-made paper will be exported? This is a relatively new consideration, primarily a result of differing foreign exchange rates, points out McGraw-Hill's McCabe. "The Europeans are expressing interest in importing American paper because we now make paper less expensively," he says.

This was not a significant factor during the shortfall; it's a new phenomenon beginning this year.

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